

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
<http://www.in.gov/legislative>

FISCAL IMPACT STATEMENT

LS 6357

BILL NUMBER: HB 1299

NOTE PREPARED: Feb 25, 2005

BILL AMENDED: Feb 24, 2005

SUBJECT: Food and Beverage Taxes.

FIRST AUTHOR: Rep. Whetstone

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X **GENERAL**
DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) **(A)** The bill authorizes the following to adopt an ordinance to impose a food and beverage tax:

(1) the Town of Avon;

(2) Monroe County;

(3) Wayne County.

(B) The bill makes various changes to the administration and use of the Henry County Food and Beverage Tax.

Effective Date: (Amended) December 31, 2004 (retroactive); Upon passage; July 1, 2005.

Explanation of State Expenditures: Current cost for the Department of State Revenue to administer, audit, and collect food and beverage taxes is approximately \$0.51 per \$100 of revenue. The Department's current resources are sufficient to absorb the additional costs associated with this proposal.

Explanation of State Revenues:

Explanation of Local Expenditures: (Revised) **(A)** Under current law, if the fiscal bodies of the Avon, Monroe County, and Wayne County were to adopt an ordinance to impose a 1% food and beverage tax, they would be required to send a certified copy of the adopting ordinance to the Department of State Revenue. Additionally, if the tax is imposed by ordinance, these counties and municipality would be required to establish

a food and beverage tax receipts fund (FBTRF). The FBTRF would consist of all revenue generated by the proposed tax and interest earned from the investment of money in the fund.

County Food and Beverage Tax Authorities: The bill would establish a nine-member Monroe County Food and Beverage Tax Authority and a seven-member Wayne County Food and Beverage Tax Committee to make recommendations on the use of revenue in the counties' respective FBTRFs. The terms of the Monroe County Authority members would be staggered and expire after two years. Wayne County committee members would also serve staggered terms that would last four years. Unless an ordinance were to designate that the FBTRF would provide a source of compensation for the committee members or the members were to serve without pay, the county fiscal body would likely have to set aside an appropriation or allocation from another county fund to fix compensation.

(A)(2) Payments received from the collection of the Monroe County tax would be used to for the following projects: convention/conference center or auditorium, public safety facilities or operations, parks and recreation facilities, tourism/economic development projects or parking facilities. The county would receive monthly payments of the food and beverage tax from the Treasurer of State on warrants issued by the Auditor of State.

(A)(3) Food and Beverage taxes collected in Wayne County tax would be used for a jail or juvenile detention facility. The county would receive monthly payments of the food and beverage tax from the Treasurer of State on warrants issued by the Auditor of State. Revenue from the food and beverage tax received by the county from the Auditor of State would be placed by the county auditor into the County's FBTRF.

(B) Under current law, the Henry County Food and Beverage Tax Council and the Capital Improvements Committee sunsets on January 1, 2005. The bill would retroactively extend the Council and Committee until January 1, 2016, and the ability to issue new bonds or leases from the tax.

The bill would also allow any revenue source legally available to Henry County to be used for the payment of bonds or other obligations incurred under the Henry County Food and Beverage Tax statute. Under current law, only revenue from the Food and Beverage Tax is allowed to pay for bonds and other obligations incurred. If other sources of revenue were used to cover Food and Beverage Tax obligations, there would be an indeterminable impact to local expenditures in Henry County. The impact would depend on local action.

Total expenditures from the Henry County Food and Beverage Tax Fund in FY 2004 were \$395,324.

Explanation of Local Revenues: (Revised) *Revenue Impact Local Food and Beverage Tax:* The following table illustrates the breakdown of estimated local revenue the following counties/municipalities are projected to generate from local food and beverage taxes:

County/Municipality	CY 2005	CY 2006	CY 2007
Avon (A)(1)	67,000	285,000	303,000
Monroe County (A)(2)	892,000	2,247,000	2,357,000
Wayne County (A)(3)		1,016,000	1,163,000

(A)(1) If the Town of Avon were to pass an ordinance to impose a 1% food and beverage tax, it is estimated

the tax would generate **\$67,000** in CY 2005, **\$285,000** in CY 2006, and **\$303,000** in CY 2007.

Background: According to U.S. Census data, total food and beverage sales in Hendricks County for CY 1997 were \$68,393,000. Based on this amount, a 1% food and beverage tax would have generated an additional \$683,930, or 1% of the total sales. Before projecting future revenues, the 1% estimate must be adjusted to reflect sales of prepared foods (such as those sold in supermarkets) which would be subject to the proposed tax, but are not included in the Census data. In order to account for these prepared foods, an additional 10% adjustment to the \$683,930 estimate is added to establish a CY 1997 baseline of \$752,323 for Hendricks County.

The average growth rate of food and beverage-related total sales in Hendricks County reported by the U.S. Census Bureau from CY 1992 to CY 1997 was approximately 12.2%. This rate was used to project sales of food and beverages through CY 2000. Based on the economic performance of CY 2001 and CY 2002, collections in those years were based on state Sales Tax growth rates of 1% and 2% respectively. Using these growth rates, the base estimate for CY 2002 was \$1,095,000.

The average growth rate in Hendricks County personal income for eating and drinking places was 1.8 times the state average growth rate over the years 1997 through 2000. However over the years 2000 to 2002, the average growth of personal income in Hendricks was about 1.4 times the state average growth rate. To reflect the recent performance in the growth of personal income, the state revenue forecast for Sales Tax growth over FY 2005 of 4.9% was multiplied by 1.4 to reflect the higher rate of growth of personal income in Hendricks County. This adjustment assumes income has a direct relationship to sales. The result was a growth rate of 6.7%, which was applied to the CY 2005 county base of \$1.2 M. This adjusted rate was used to project revenue from CY 2005 through CY 2007.

According to a count of Hendricks County Health Department permits issued to food and beverage establishments, approximately 21.5% of the county's total food and beverage sales are generated in Avon. To reflect Avon's share of a countywide Food and Beverage Tax, the 21.5% is applied to the county projections in CY 2005 through CY 2007.

The effective date of the bill is July 1, 2005. As a result, Hendricks County could begin receiving revenue from a food and beverage tax by the fourth quarter of CY 2005. A three-month lag is applied from the effective date of the bill to account for the time required for the county to pass an ordinance and then set up the mechanisms necessary to begin receiving revenue. The projected revenue for CY 2005 would be one-quarter of the annual projection, or approximately **\$67,000** [$0.25 \times (\$1,247,000 \times 21.5\%) = \$67,026$]. Twelve months of collection would begin in CY 2006.

(A)(2) The imposition of the Monroe County Food and Beverage Tax is estimated to generate **\$892,000 in CY 2005, \$2,247,000 in CY 2006, and \$2,357,000 in CY 2007**. The Food and Beverage Tax is an excise tax on food and beverages prepared and served for sale in the local unit imposing the tax. The tax rate would be 1% and would be collected and remitted in the same manner as the state Sales Tax.

Bloomington Provision: Under the bill, the Monroe County Auditor would be required to transfer food and beverage tax revenue collected from Bloomington establishments to the Bloomington city fiscal officer for deposit into the City's Food and Beverage Tax Receipts Fund. Revenue in the Fund would be used for a convention/conference center or auditorium, parks and recreation facilities, tourism/economic development projects, or parking facilities, or public safety facilities/operations.

The transfer amount would equal the ratio of Bloomington's population to Monroe County's population. Based on US Census Bureau population estimates from the 2000 census, Bloomington's population accounted for approximately 57% of the County's population. Therefore, if 57% of the revenue generated from the proposed countywide tax went to Bloomington, the city could see an estimated **\$513,000 in CY 2005, \$1,291,000 in CY 2006, and \$1,355,000 in CY 2007**. The remaining 43% of the revenue would be maintained by the County.

Collection Allowance: Collection agents for the proposed Monroe County tax, if allowed by county ordinance, would receive an allowance from tax proceeds collected at their place of business. The rate of allowance would be determined by an adopting ordinance.

Background: According to the most recent U.S. Census data, total food and beverage sales in Monroe County for CY 1997 were \$144,233,000. Based on this amount, the 1% Food and Beverage Tax would have generated an additional \$1,442,330 in CY 1997, or 1% of the total sales. Before projecting future revenues, this figure must be adjusted to reflect sales of prepared foods (such as those sold in supermarkets) which would be subject to the proposed tax but are not included in the U.S. Census data. In order to account for these prepared foods, an additional 10% adjustment to the \$1,442,330 projection is added to establish a CY 1997 baseline of \$1,587,000 for Monroe County.

The average growth rate of food and beverage-related total sales in Monroe County reported by the U.S. Census Bureau from CY 1992 to CY 1997 was approximately 5.3%. This rate was used to project sales of food and beverages through CY 2000. Given recent economic performance, the baseline is grown using state Sales Tax growth rates for FY 2001 (1%), FY 2002 (2%), and FY 2003 (2%) to reach a base for FY 2004. The base amount for CY 2004 is \$2,048,000. Projected years from CY 2005-2007 were grown using the state Sales Tax estimated growth rates from the December 14, 2004 state revenue forecast: 5% in FY 2004, 4.6% in FY 2005 and 4.9% in FY 2006. The growth rate for FY 2006 is flat-lined at 4.9% until additional forecast information is available. These rates were applied to the CY 2004 base of \$2.05 M to project revenue from CY 2005 to CY 2007. The CY 2005 projected base is \$2,142,000.

The effective date of the bill is upon passage. As a result, Monroe County could begin receiving revenue from food and beverage sales by August 2005. A three-month lag is applied from the effective date of the bill to account for the county to pass an ordinance and then set up the mechanisms necessary to begin receiving revenue. The actual expected impact for CY 2005 would be five-twelfths of the annual projection, or \$892,000 (5/12ths of the CY 2005 complete year estimate of \$2,142,000). Complete-year collection would begin in CY 2006.

(A)(3) The imposition of the Wayne County Food and Beverage Tax is estimated to generate **\$1,016,000** in CY 2006, and **\$1,163,000** in CY 2007, assuming an ordinance date by September of 2005. The tax estimate is at the rate of 1%. The Food and Beverage Tax is an excise tax on food and beverages prepared and served for sale in the local unit imposing the tax. The tax would be collected and remitted in the same manner as the state Sales Tax.

Background: According to the most recent U.S. Census data, total food and beverage sales in Wayne County for CY 1997 were \$73,606,000. Based on this amount, the 1% Food and Beverage Tax would have generated an additional \$736,060 in CY 1997, or 1% of the total sales. Before projecting future revenues, this figure must be adjusted to reflect sales of prepared foods (such as those sold in supermarkets) which would be subject to the proposed tax but are not included in the U.S. Census data. In order to account for these prepared foods, an additional 10% adjustment to the \$736,060 projection is added to establish a CY 1997 baseline of \$810,000

for Wayne County.

The average growth rate of food and beverage-related total sales in Wayne County reported by the U.S. Census Bureau from CY 1992 to CY 1997 was approximately 4.2%. This rate was used to project sales of food and beverages through CY 2000. Given recent economic performance, the baseline is grown using state Sales Tax growth rates for FY 2001 (1%), FY 2002 (2%), and FY 2003 (2%) to reach a base for FY 2004. The base amount for CY 2004 is \$1,010,591. Projected years from CY 2005-2007 were grown using the state Sales Tax estimated growth rates from the December 14, 2004, state revenue forecast: 5% in FY 2004, 4.6% in FY 2005, and 4.9% in FY 2006. The growth rate for FY 2006 is flat-lined at 4.9% until additional forecast information is available. These rates were applied to the CY 2004 base of \$1,010,591 M to project revenue from CY 2005 to CY 2007. The CY 2005 projected base is \$1,057,078.

The effective date of the bill is July 1, 2005. The bill would allow adoption between January 1 and September 1 in a given year. The tax would be effective January 1, of the year immediately following adoption. As a result, Wayne County could begin receiving revenue from food and beverage sales by February 2006, at the earliest. A one-month lag is applied from the effective date of an ordinance to account for the remittance of the first month's revenue (January pay February). The actual expected impact for CY 2006 would be eleven-twelfths of the annual projection, or \$1,016,000 (11/12ths of the CY 2006 estimate of \$1,109,000). A full-year collection would begin in CY 2007.

(B) Unlike the Council, the Henry County Food and Beverage Tax remains in effect until the Council adopts an ordinance to rescind the tax. Additionally, the tax cannot be rescinded while there are bonds, leases, or other obligations outstanding. The bill does not increase the Henry County Food and Beverage Tax above its current 1% rate. With respect to local revenues, the provisions of the bill should be revenue neutral.

Background: Under current law, the following capital projects are allowed to be funded by the Henry County Food and Beverage Tax:

- (1) Sanitary sewers or wastewater treatment facilities that serve economic development purposes.
- (2) Drainage or flood control facilities that serve economic development purposes.
- (3) Road improvements used on an access road for an industrial park that serve an economic development purpose.
- (4) A covered horse show arena.
- (5) A historic birthplace memorial.
- (6) A historic gymnasium, community center, main street renovation, and picnic and park areas in Knightstown.
- (7) A community park and cultural center.
- (8) Projects for which the county decides to expend Food and Beverage Tax Fund money or that the county issues bonds, other obligations, or enter into leases.
- (9) An ambulance.

Total revenue generated in FY 2004 for the Henry County Food and Beverage Tax was \$410,087.

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Town of Avon; Henry County; Monroe County; Wayne County.

Information Sources: State Budget Agency Auditor's Data: Auditor's Trial Balance, June 30, 2004; Bob

Walls, Department of State Revenue; U.S. Census Bureau; U.S. Department of Commerce, Bureau of Economic Analysis; Hendricks County Health Department, (317) 745-9217.

Fiscal Analyst: Chris Baker, 317-232-9851.